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**Nestlé Coping with Japanese Nationalism: The  
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# **Nestlé Coping with Japanese Nationalism: The establishment and maintenance strategy of a foreign multinational enterprise in Japan, 1913-1945<sup>1</sup>**

## **Abstract**

This paper focuses on the strategy adopted by the MNE Nestlé in Japan between the establishment of a branch at Yokohama in 1913 and the end of World War II. It highlights the difficulties encountered by the firm in its attempts to open up and operate production facilities due to strong opposition from local condensed milk makers, supported by the State. Eventually, in 1934, Nestlé opened a factory by founding an incorporated company, ARKK, all of whose shareholders were Japanese working for Nestlé. Although the war drastically curtailed the activities of both Nestlé Japan and ARKK, the organizational facilities set up during the interwar period provided a springboard for Nestlé's post-war success in Japan.

Keywords: Japan; Switzerland; nationalism; neutrality, MNE; FDI, food industry; Nestlé; brand strategy, World War, interwar period,

## **Introduction**

During the first third of the 20th century, direct investments by multinational enterprises (MNEs), mainly American, German and British, played a key role in the industrial growth of Japan (Nihon ni okeru gaikoku shihon, 1948; Uchida, 1980; Yamamura,

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1986; Udagawa, 1987; Yuzawa and Udagawa, 1990; Mason, 1992). Even though the total amount of these investments, estimated by the Japanese Ministry of Finance at 122.5 million dollars in 1929 (Mason, 1992, p. 46), was extremely small in an international comparison (Jones, 2005, p. 156), they were decisive as they enabled Japan to acquire technologies in the sectors of the so-called second industrial revolution (electricity, chemical, automobile, etc.). The liberal policy towards foreign MNEs that the Japanese authorities adopted during the 1890s, such as joining the gold standard (1897), acceding to the Paris Convention on Intellectual Property (1899) and adopting a new commercial code liberalizing business activities of foreigners (1899), was aimed precisely at obtaining new technologies controlled by MNEs or international cartels. The first MNE set up in Japan was an American firm, Western Electric Company, which invested in Nippon Electric Co. (NEC) in 1899 for producing telephones (Mason, 1992, pp. 27-35). It was soon followed by many other companies in the following three decades. Thus, in 1931, an official survey counted 88 enterprises funded at least 50% by foreign capital (Udagawa, 1987, p. 17).

During the 1930s, however, these MNEs faced a dramatic change in Japanese policy, characterized by a stepwise closing of the country and the adoption of measures unfavourable to foreign firms. A tendency toward the Japanization of joint ventures was evident. Foreign investors were subject to various pressures and saw the proportion of their capital drastically diminish (Udagawa, 1987, pp. 18-20). Among the 27 main foreign MNEs established in Japan in 1930, 19 had 50% or more of their capital held by foreign shareholders (70.4%). In 1941, among 35 companies, only 15 were in such a situation (45.9%). Moreover, during the 1930s, the State adopted a set of laws

introducing a system of production licenses in order to control such strategic sectors as oil (1934), automobile (1936), steel (1937), machine tools (1938), aeronautics (1938), shipbuilding (1939) and machines (1941) (Johnson, 1982, pp. 132-133). Usually, licenses were only granted to Japanese firms, which greatly limited the activities of foreign companies (Udagawa, 1987, pp. 32-37). Finally, after the Pacific War broke out in 1941, the assets of MNEs from hostile countries were seized by the Japanese authorities. In such a context, MNEs gradually ceased their activities and left Japan.

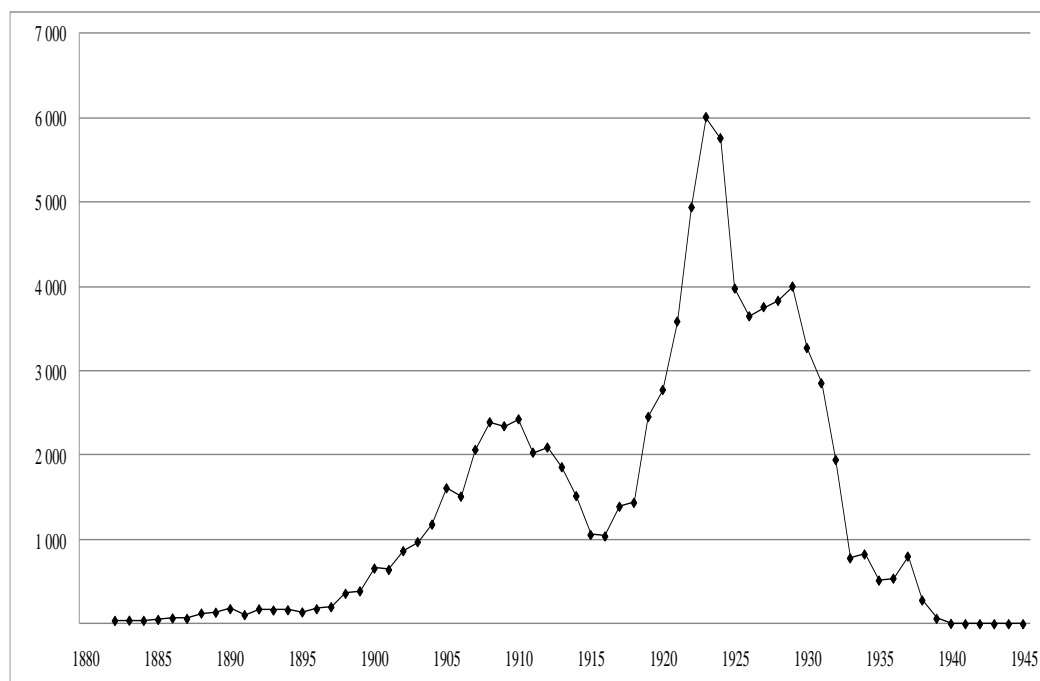
One of the rare MNEs that did remain in Japan and even consolidated its presence during the 1930s and World War II was the Swiss company Nestlé ( Nestlé & Anglo-Swiss Condensed Milk Co., hereafter Nestlé) (Heer, 1991; Lüpold, 2003; Fenner, 2008). The neutrality of the firm's home country certainly played a key role in maintaining its strong position, but it does not explain everything. The persistence of Nestlé in Japan resulted from a particular strategy of an MNE for penetrating and maintaining its presence in the country, and that is the focus of this paper.

### **Nestlé and the milk industry in Japan**

Dairy products belong to the new consumer goods with which Japan came into contact after it opened up to trade with the West (Nihon nyugyoshi, 1960, pp. 1-13; Hayashi, 2001, pp. 1-13). During the second half of the 19th century, Japanese society was subjected to an acculturation process whereby it gradually adopted various goods and lifestyles from Europe and the United States. Whereas there was a quick and massive transfer of technology and know-how for infrastructure and industry, Western consumer goods were slowly diffused and integrated into the domestic culture, in a process which Uchida calls "selective Westernization" (Uchida, 2002, p. 174). Dairy products such as

butter, cheese and yoghurt were only gradually assimilated into Japanese eating habits. In the West, condensed milk was a new industrial product juxtaposed with traditional goods whose use was already widespread, like cheese and butter. In Japan, however, all these products were new and their market development sequence took a completely opposite path from Europe, starting with fresh milk and condensed milk, followed by powdered milk, ice cream and butter, and finally cheese (Hayashi, 2001, p. i). Accordingly, in 1913, Japanese production of dairy products was estimated at 565,000 yen for condensed milk, 242,000 yen for butter, 60,000 yen for margarine, 14,000 yen for ice cream, 6,200 yen for cheese and 5,400 yen for yoghurt (Nihon nyugyoshi, 1960, p. 47). In Japan, condensed and powdered milk was initially regarded as special foodstuff for children, sick persons and the army (Nihon nyugyoshi, 1960, pp. 12-13).

Figure 1. Import of condensed and powdered milk in Japan, in thousandth of current yen, 1882-1945



Source: Zaimusho, 1882-1945

Note: Powdered milk and condensed milk are not separated in this source between 1882 and 1927.

Trends for imports of condensed and powdered milk highlight the slow emergence and structuring of this market. Imports and consumption were almost negligible before the second half of the 1890s. The value of imports amounted to less than 100,000 yen a year until 1887 then rose to 139,000 yen in 1895, representing a scant 410 kg for the entire nation. It was a very limited market, probably mainly geared to the foreign community established in the country. Imports subsequently entered a period of high growth, reaching an average value of 2.2 million yen between the years 1907-1912 with an average of 6.1 tons in volume.

As the dairy products market in Japan became more structured during this period, it saw tough competition between two major actors: a few foreign multinational enterprises (MNEs) vying against numerous smaller domestic producers. Indeed, the growth of the market led the Japanese to go into the new industry, taking advantage of successive increases in import duties on condensed milk (in 1904, 1905, 1907 and 1911) (Zaimusho, 1960, vol. 2). Yet Japan's protectionist policy adopted after 1895 did not always help the development of the local condensed milk industry. In fact, the raising of the import tax on sugar, an essential raw material for this industry in 1901, posed an obstacle to its growth and led to a political movement, which resulted in the refund of this tax (*modoshizei*) in 1908 (Nihon nyugyo shi, 1960, p. 29). Together with the tax hike on imported condensed milk, this paved the way for the development of the domestic condensed milk industry.

Industry growth was also boosted by changing material and technical conditions, which became favourable in the 1890s. First, one should mention the basic fact that cow breeding and dairy production were new to Japan. Unlike the West, Japan had to introduce cows and stock farming in order to be able to produce condensed milk (Nihon

nyugyo shi, 1960, pp. 5-23). Second, the technologies and skills necessary for making condensed milk were mastered through the process of technology transfer and local adaptation, namely the local emulation of the double-lined *Inoue* evaporation basin (1882) and the gradual introduction (1891) and local production of vacuum pans (1910) (Nihon nyugyo shi, 1960, pp. 13-14, Hayashi, 2001, pp.181, Nakajima, 1967, p.267). Third, the improvements made in the food canning technology since the 1900s supported the domestic condensed milk industry. Canned food was imported by the army during the war against China (1895), and its domestic development was then encouraged by the army during the war against Russia (1904-1905). This gave birth to Toyo Seikan, a can-producing company founded in 1917 (Toyo Seikan, 1967; Yamanaka, 1962, pp. 519-529). It was the first can maker in Japan to produce high-quality double-sheet cans by introducing an automatic canning line from ACC (American Can Company). It also assisted the American condensed milk giant Carnation in establishing production facilities in Japan from 1935-1936 (Morinaga, 1967, pp. 69-70 and 616).<sup>2</sup>

This political and material backdrop boosted the growth of the industry after 1900. At first, domestic production was limited, amounting to a meagre average volume of 483 kg for the years 1903-1908, which was less than four per cent of domestic consumption (see Table 1). On the other hand, the first phase of growth can be observed since 1910. Not only did production grow quickly, reaching 500 kg in 1910 and 790 kg in 1916, but market share also increased considerably.

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<sup>2</sup> Carnation adopted a similar camouflage strategy to Nestlé, founding its production subsidiary (Toyo Seinyu) with only Japanese board members. It was eventually bought up by Morinaga in 1940.



Table 1. Domestic production of condensed milk in Japan, in kg, 1903-1916

	1903	1904	1905	1906	1907	1908	1909
Production, kg	462	480	453	488	480	533	?
Self-sufficiency, %	4.8	4.5	3.2	3.8	2.8	2.8	?

	1910	1911	1912	1913	1914	1915	1916
Production, kg	500	720	1298	1752	?	518	790
Self-sufficiency, %	7.2	11.6	18.9	77.9	?	17.2	25.8

Source: Nihon nyugyo shi, 1960, pp. 33 and 39-40.

Note: Data for 1909 and 1914 are not known.

The import slump observed during World War I, which can be explained by the very high demand for condensed milk in the Western markets, was only short-lived, and growth continued during the 1920s. However, the peak of the years 1923-1924, with an average of 5.9 million yen and 5.7 tons, was exceptional. It was a result of the temporary easing of custom duties as a consequence of the Great Kanto Earthquake of 1923. For about four months between September 1923 and January 1924, it was possible to import condensed and powdered milk tax-free (Nihon nyugyo shi, 1960, pp. 119-121). Protective customs duties were reintroduced at the end of January 1924 and raised again twice (1926 and 1932) (Zaimusho, 1960, vol. 2), which explains the sharp drop in imports during the 1930s. In 1933, imports fell below the 1 million yen mark, which was the level of 1902, and were nil since 1941. It was precisely during the interwar period that the big Japanese dairy product companies came on the scene and Nestlé tried to set up production in Japan.

### *The arrival of Nestlé on the Japanese market*

Nestlé & Anglo-Swiss Condensed Milk Co. was an enterprise which established itself

as the dominant player in the dairy industry in Japan at the beginning of the 20th century. The company was formed in 1905 by a large-scale merger of two Swiss enterprises. The first one was the Anglo-Swiss Condensed Milk Co., an Americano-Swiss company specialized in the production of condensed milk and headquartered in Cham, in the German-speaking part of Switzerland, while the second one was the company Farine lactée Henri Nestlé in Vevey, in the French-speaking part of the country. Both businesses were founded in 1866, and they were already major MNEs when they merged in 1905. Together, they possessed a total of 18 production centres, among which only 7 were in Switzerland (Heer, 1991, p. 80).

Nestlé pursued its policy of expansion by establishing and acquiring enterprises throughout the world. It experienced especially high growth during World War I, buying up many small companies in the United States and in Australia to supply condensed milk to the European markets. Nestlé doubled its worldwide production capacity between 1914 and 1918 (Heer, 1991, p. 114). After the war, the company faced severe financial difficulties and restructured in the 1920s before expanding again in the decade that followed so that in 1938 it possessed more than one hundred production centres (Heer, 1991, p. 175). This spread was accompanied by a strategy of diversification into new fields of food industry, with especially the start of chocolate production in 1905 that led to the merger of Peter, Cailler, Kohler Chocolats Suisses SA (1929) (Pfiffner, 2010). Finally, in 1938, Nestlé launched the instant coffee Nescafé, which went on to become be a major component of the company's success on the world market after World War II.

Nestlé's growth entailed several corporate restructurings. Even after the merger in 1905, the new group maintained its two former headquarters, one in Cham and one in

Vevey, to which were soon added one in London and another in Paris. However, the above-mentioned financial crisis after WWI made a fundamental reorganization of the company unavoidable, and the management was finally centralized with the establishment of a single headquarters in London (1922), which was transferred to Vevey shortly thereafter (1924).

Further expansion of production and sales on a global scale during the 1930s, combined with political instability on the European continent, led to a fresh reorganization of Nestlé Group in 1936, resulting in a twin-type holding structure (Kurosawa, 2010). On the one hand, Nestlé & Anglo-Swiss Co. Ltd. was turned into a holding company (Nestlé & Anglo-Swiss Holding Co. Ltd) with its headquarters in Switzerland. It controlled various subsidiaries mostly active on the European market, to which belonged the former main office in Vevey, now renamed Société des Produits Nestlé SA (SPN). On the other hand, the second holding company, named Unilac Inc., was created. It was officially based in Panama but had its de facto main headquarters (hereafter Nestlé US headquarters) in its American subsidiary based in Stamford (Connecticut). It owned subsidiaries in the Western hemisphere (Canada, United States and Latin America), which it controlled during WWII. This particular double holding and management structure made it possible for Nestlé to continue its business in both warring camps during World War II (Kurosawa, 2010; Ruch, Rais-Liechti and Peter, 2001). Thus, the activities of Nestlé in Japan were successively under the control of the London headquarters, which initially supervised the export business to Asia (until 1924), then Vevey (1924-1936), Stamford (1936-1941), and then again Vevey after the outbreak of the Pacific War between the United States and Japan, which lasted from 1941 to 1945.

Nestlé was therefore an expanding MNE when it arrived in Japan at the beginning of the 20th century. The first imports of Nestlé goods were attested at the end of the 1890s.<sup>3</sup> In 1911, the *Milkmaid* (Nestlé's brand for unsweetened condensed milk) importer in Japan, the American Trading Co., became Nestlé's official agent for the Japanese market. Two years later, in April 1913, a branch office (hereafter Nestlé Japan) reporting to the London headquarters was opened at Yokohama, and successively moved to Tokyo (1915), Yokohama (1920) then Kobe (1922). It was obviously an internalization of the activities of its sales agent, because Nestlé Japan indeed hired core employees of American Trading Co.<sup>4</sup> This vertical integration downstream was consistent with Nestlé's global strategy, which aimed at controlling the distribution of its products more intensely (Heer, 1991, pp. 111-112). Unfortunately, there are no documents in the Nestlé archives that provide any statistical information on the company's early activities in Japan, but its main business at the time was the import of dairy products into Japan, and distribution was through the powerful Mitsui Trading, the trade company of the homonymous *zaibatsu*.<sup>5</sup> The only production organized in Japan by Nestlé before the 1930s was the manufacture of milk caramels from 1917 or 1920.<sup>6</sup> Although some of its Japanese rivals – notably Morinaga Seika from 1914 onwards (Morinaga, 1967, p. 21) – produced it as their mainstay product, the manufacturing of milk caramel by Nestlé was not a result of a systematic strategy for the localization of company production but rather an attempt to squeeze additional

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<sup>3</sup> Exports of condensed milk amounted to 51,000 francs that year (Deslarzes, 1957, p. 37).

<sup>4</sup> Archives historiques de Nestlé (AHN), Vevey (Switzerland), 1520 Japan, *Notes on Japan*, 15 July 1943, p. 1.

<sup>5</sup> AHN, 1520 Japan, Production and sale of Eledon and Lactogen in Japan, 29 June 1942

<sup>6</sup> The year is different according to the sources. AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 2 quotes 1920 while Fujimoto, N. *The Course of Nestlé k.k. in Japan. Spanning the Meiji, Taisho and Showa eras*, undated (around 1983), p.5 mentions 1917-1918.

profits out of the condensed milk business, because its caramels were made from defective condensed milk returned by the company's sales agent to Nestlé.<sup>7</sup>

The main MNEs active in importing dairy products into Japan were the American companies Borden Co. (condensed milk *Eagle*)<sup>8</sup> and Carnation Milk Products Co., as well as the Australian Bacchus Marsh Co. (powdered milk *Lactogen*). Furthermore, Borden and Carnation were the main rivals of Nestlé in the world market and Bacchus Marsh in the Australian one (Chandler, 1990, pp. 156-157). This competition was notably reduced during the 1920s. First, Nestlé took over Bacchus Marsh in 1921 as part of its Australian market reorganization strategy,<sup>9</sup> subsequently distributing the *Lactogen* brand on the Japanese market. Second, in 1926 Nestlé signed an agreement with Borden Co. giving it exclusive sales rights to *Eagle* condensed milk in Japan.<sup>10</sup> Thus, since the mid-1920s, Carnation was Nestlé's only foreign competitor in Japan, but the Swiss firm faced fierce competition from local producers.

### ***From consumption to production: the birth of an industry***

Nestlé's main rivals in Japan were the domestic firms that launched the production of dairy products during the interwar period. At first, many small manufacturers were founded (Meiji, 1969, pp. 29-31). In 1924, there were 11 condensed milk producers, possessing a total of 22 factories, and one company (Morinaga) that produced powdered milk. Afterwards, a large-scale merger movement occurred, giving birth to a few leading firms, essentially Morinaga and Meiji.

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<sup>7</sup> AHN, 1520 Japan, *Entretiens de M. A. Wiederkehr avec M. M. Champoud*, 20 December 1944, p. 15.

<sup>8</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 1.

<sup>9</sup> Guide to Australian Business Records, [www.gabr.net.au](http://www.gabr.net.au) (site accessed the 11 March 2010).

<sup>10</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 3.

Morinaga was an early competitor for Nestlé. This enterprise was originally a cookie factory opened in 1899. It became Morinaga Seika Co. (1912) and quickly started producing milk caramels (1914) and chocolate (1918), products for which Nestlé dominated the markets at the time.<sup>11</sup> Morinaga began to manufacture condensed milk for its caramel production. In 1917, it bought up Aikoku Condensed Milk and marketed its own condensed milk (1918). Afterwards, Morinaga merged many small condensed milk makers during the interwar period (Morinaga, 1967, p. 21), while simultaneously diversifying its production range, with powdered milk (1920), butter (1924) and lactic beverages (1927) (Morinaga, 1967, pp. 29-32). Finally in 1927, its condensed milk division was spun off to found Morinaga Condensed Milk Co. (Morinaga, 1967, p. 38).<sup>12</sup>

As for Meiji, its roots go back to a sugar refinery founded in 1906 (Meiji Seito). Its confectionery division was spun off under the name of Tokyo Seika Co. (1916), then Meiji Seika Co. (1924). This firm invested in a Japanese condensed milk company, Boso Condensed Milk Co., taking over half of its capital, and merging it in 1920 (Meiji, 1969, pp. 483-484). It subsequently adopted a strategy of diversification with the launch of ice creams, syrups, sodas, etc. Like Morinaga, it based its growth on merging other firms, particularly the condensed milk companies Hokkaido (1933), Sanyo (1934) and Far Eastern (1940) (Meiji, 1969, p. 34).

Led by Morinaga and Meiji, the Japanese condensed milk makers banded together in 1919 to form the Japanese Condensed Milk Association (*Dainippon rennyu kyokai*), whose main objectives were to encourage consumption of domestic condensed

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<sup>11</sup> AHN, 1520 Japan and Fujimoto, N. *The Course of Nestlé k.k. in Japan. Spanning the Meiji, Taisho and Showa eras*, undated (around 1983), p. 6.

<sup>12</sup> During World War II, it was successively renamed Morinaga Dairy Industry (1941), reincorporated as Morinaga Seika (1942), then became Morinaga Food Industry (1943).

milk; to support the exports of this sector; and to promote customs protection (Morinaga, 1967, pp. 22-24; Nihon nyugyoshi, 1960, pp. 111-119).<sup>13</sup> Exports from Japan grew during the 1920s, increasing from 10 tons in 1915 to 365 tons in 1920 and 356 tons in 1930 (Morinaga, 1967, p. 64). Together with these joint measures, Morinaga and Meiji set up new distribution and sales networks at the end of the 1920s.<sup>14</sup> They not only adopted an aggressive sales policy characterized by the imitation of foreign brands' packaging and the choice of prices lower than imported products, but they also integrated all their retailers into associations in order to effectively control the market (Ishihara and Tahagi, 2004, pp. 20-22).

To cope with such competition, Nestlé had no choice but to proceed to relocate its production to Japan. As the director of Nestlé Japan, Champoud reminded it in July 1943: "Import duties had gradually been much raised and finally made it practically prohibitive to import milk products. This was the main reason why in principle I immediately decided that we had to get our own factory in Japan if we wanted to have a chance of remaining in the market."<sup>15</sup> Nevertheless, the Swiss MNE faced major difficulties in realizing this project.

### **The difficulty of opening up production in Japan**

Very soon, Nestlé started thinking of opening a production centre in Japan, a strategy which was by the way adopted on a global scale at the beginning of the 20th century (Heer, 1991, pp. 108-120). Around 1915, it attempted to begin negotiations with a local company Far Eastern Condensed Milk through the powerful Mitsui Trading Co., but to

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<sup>13</sup> It was renamed the Japanese Milk Industry Association (*Danijon seinyu kyokai*) in 1923.

<sup>14</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 5.

<sup>15</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 6.

no avail.<sup>16</sup> It took Nestlé another two such attempts (1926-1928 and 1931) before it managed to acquire a plant of its own (1934).

### ***The attempts to invest in Hokkaido (1926-1931)***

Between 1926 and 1931, Nestlé tried twice to open up local production in Japan in the form of a joint venture with Japanese condensed milk companies. It failed in both cases, due to the fierce opposition generated by its efforts.

The first attempt was a joint venture proposal Nestlé made to the company called Dainippon Nyuseihin (Dairy Products), the biggest condensed milk producer in Hokkaido, which was in dire financial straits (Meiji, 1969, p. 107). The first approach took place in 1926 and led to long negotiations for which Louis Dapples, general director and big boss of Nestlé & Anglo-Swiss Co., visited Japan for this deal. It was decided in 1928 to set up a joint venture in which Nestlé would hold half of the capital.<sup>17</sup> However, this project immediately triggered fierce opposition by the Japanese Condensed Milk Association and was soon given up (Morinaga, 1967, pp. 53-55; Nihon nyugyoshi, 1960, p. 9). Dainippon Nyuseihin was finally taken over by Meiji in 1932 (Meiji, 1969, pp. 106-113).

Despite this failure, the restructuring of business in Japan was a key issue and Nestlé's general management in Switzerland sent a new manager to Japan in 1930 for this purpose. Called back from Africa, Maurice Champoud was given a twofold objective: modernizing the distribution system and setting up production in Japan.<sup>18</sup> He retained influential politician Ariyoshi Chuichi as an ally. Ariyoshi was the former

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<sup>16</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 3 and Nihon nyugyoshi, 1960, p. 162.

<sup>17</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 4 and Nihon nyugyoshi, 1960, pp. 163-164.

<sup>18</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 5.



governor of Hyogo prefecture (Kobe), former mayor of Yokohama and a member of the House of Peers.<sup>19</sup> The reorganization of distribution, a strategy adopted then by Nestlé in all of its markets, aimed at doing away with wholesalers and selling directly to retailers.<sup>20</sup> However, this strategy was not possible in Japan, because it would have been vetoed by Nestlé's wholesaler at the time, Mitsui Trading Company.

In 1931, a second joint venture project was adopted by Nestlé and the Hokkaido League of Cooperatives for Dairy Production and Sales (*Hokkaido Seiraku Hambai Kumiai Rengokai*) (Nihon nyugyo shi, 1960, pp. 171-174).<sup>21</sup> At the time, dairy farmers in Hokkaido were in a critical situation and were fighting with Japanese condensed milk producers over prices and supply conditions. Seizing this opportunity, the Swiss MNE offered the League to leave half of the capital and the head office to Japanese citizens in the joint venture, in return for a fresh milk supply from member farmers of the League. Nestlé further promised not to enter butter production so as to avoid competition with these same farmers.<sup>22</sup> However, this attempt led once again to fierce protests by the Japanese Milk Industry Association, which successfully lobbied the highest authorities in Tokyo (Prime Minister, Ministry of Commerce and Industry, Ministry of Agriculture and Forest, House of Peers) and the country as a whole (Morinaga, 1967, p. 55). The project was soon dropped.

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<sup>19</sup> AHN, 1520 Japan, *Entretiens de M. A. Wiederkehr avec M. M. Champoud*, 20 December 1944, p. 4 and Nichigai, 2004, vol. 2, p. 120.

<sup>20</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 7.

<sup>21</sup> Afterwards, this union became the company Yukijirushi, one of the main dairy products firm in Japan after 1945 together with Morinaga and Meiji.

<sup>22</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 26.

***The creation of Awaji Rennyu K.K. (1934)***

Nestlé finally succeeded in setting up a production center in Japan in 1934, with the foundation of Awaji Condensed Milk (abbreviated as ARKK following the Japanese name).<sup>23</sup> It originated as a condensed milk factory, Fuji Condensed Milk, founded by Fujii Chojiro in Hirota, Hyogo Prefecture in 1919 (Morinaga, 1967, p. 55). Faced with financial difficulties, its owner was looking for someone to take over the firm and was engaged in negotiations with Meiji Seika and the American MNE Carnation Co. and General Milk Co., without reaching an agreement. Then, Fujii approached Nestlé in January 1933.<sup>24</sup> Considering that “it was about the last chance for a foreign concern to establish itself”,<sup>25</sup> Champoud paid 40,000 yen in advance and began negotiations that lasted through July. The acquisition was finally agreed at 430,000 yen. According to Champoud, “the price paid by us was of course out of proportion with the value of factory and a substantial proportion of the total amount had been entered in the new company’s books as *goodwill*. This item as a matter of fact represented the price we had to pay to establish a factory in Japan and at the time to shut out Carnation and prevent Meiji from getting hold of this last opportunity.”<sup>26</sup>

In order to buy up this company, Nestlé created a new company in October 1933, Fuji Milk Products Co. with a capital of 250,000 yen.<sup>27</sup> The balance of capital necessary to take over Fuji Condensed Milk and to modernize its equipment was obtained as a loan from a financial company established in Lichtenstein, obviously by Nestlé, the

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<sup>23</sup> Awaji Rennyu Kabushiki Kaisha in Japanese, which literally means “Awaji Condensed Milk Joint Stock Company”

<sup>24</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 26.

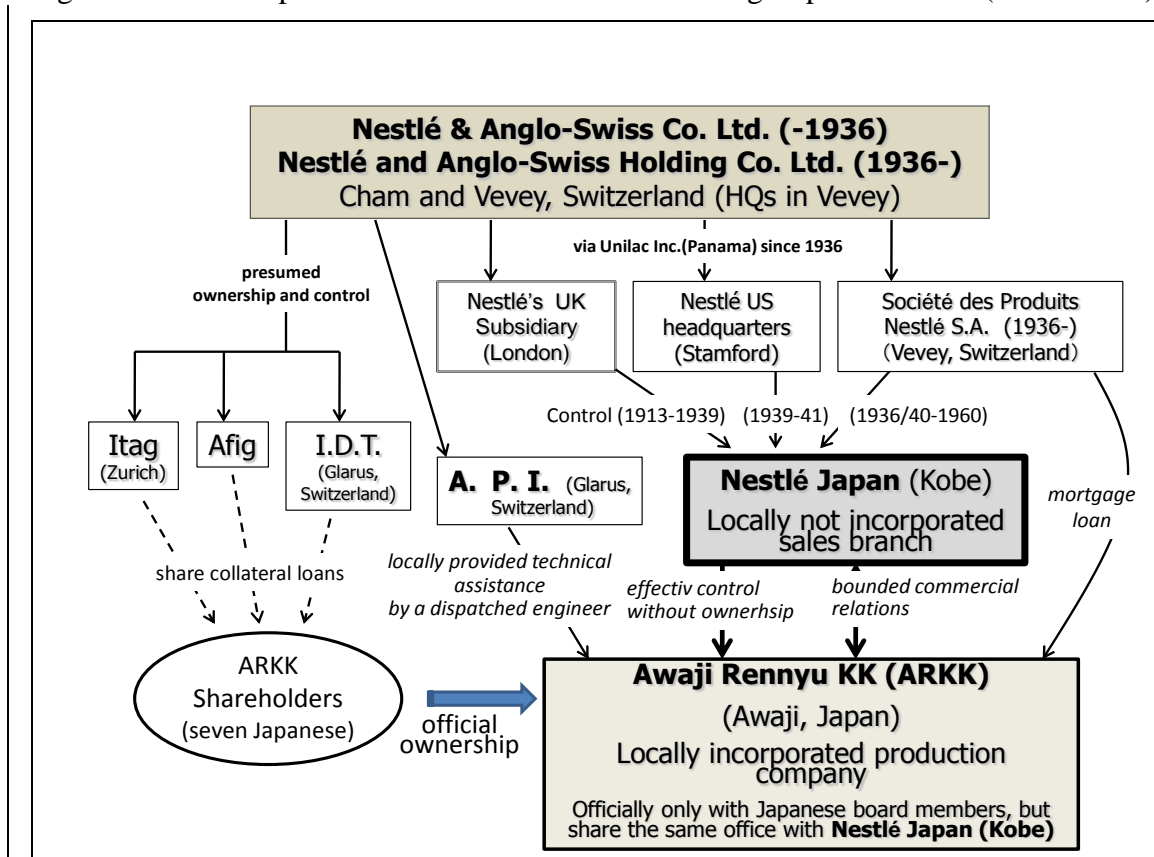
<sup>25</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 27.

<sup>26</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, pp. 27-28.

<sup>27</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, pp. 28-29.

International Development Trust.<sup>28</sup> In 1934, Fuji Milk Products raised its capital to 300,000 yen and adopted a new name: Awaji Rennyu Co. (ARKK). Although Nestlé Japan had already engaged in marketing in the country, production on Japanese soil was envisaged through a separate company. The ownership structure and management of this new company evince some particularities that can be explained by the difficulties that foreign MNEs in Japan faced during the interwar years (see figure 2). For Nestlé, the objective was to disguise its stake in the plant.

Figure 2. Ownership and control structure of the Nestlé group and ARKK (1934-1940s)



Source: Designed by the authors, based on the sources referred to in the main text and footnotes

<sup>28</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 28.

As far as Champoud was concerned, the capital was “controlled by our group.”<sup>29</sup> The necessary capital of 300,000 yen was made available by three companies which belonged to Nestlé & Anglo-Swiss Holding Co. The money was given to the seven shareholders of ARKK, all of whom were Japanese nationals and all of whom had strong connections with Nestlé Japan (employees and advisors). They received these loans against “some securities”,<sup>30</sup> probably as bank loans by share collateral as was often seen in Japan (Hoshi and Kashyap, 2001, p. 41). For Nestlé, “economically speaking, ARKK was therefore a Swiss company.”<sup>31</sup> The financial dependency of ARKK on the Swiss holding was also strengthened by a mortgage loan of about 1.5 million yen. Moreover, ARKK relied on Nestlé’s technology and know-how. In 1934, an agreement was signed with the company A.P.I., a firm within the Nestlé group, whose main tasks were technical assistance and patent management for the entire group.<sup>32</sup> The production of dairy goods was then supervised by an engineer of this company, Ruch, who stayed in Japan until 1945. From 1934 onwards, Nestlé Japan was thinking of expanding its production capacity. In 1936, it acquired a plant under Morinaga based in Saidaiji in the neighboring prefecture of Okayama, and turned it into a dairy goods plant that was “the most modern in Japan.”<sup>33</sup> Some powdered milk was notably produced there from 1938 (Nihon nyugyoshi, 1960, p. 217). Moreover, tight links existed between ARKK and Nestlé Japan. First, the administration of both

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<sup>29</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 26.

<sup>30</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 26.

<sup>31</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 26.

<sup>32</sup> The company Aktiengesellschaft für Patent- und Industrie-Werte (A.P.I.) was founded in 1926. It was the first technical assistance company of Nestlé Holding. In 1934, it was renamed Société d'Etudes et Applications Industrielles, with headquarters in Lausanne (Switzerland), then Société Suisse-Américaine d'Etudes et d'Expansion Industrielles (Swiss-American Industrial Research and Development Corporation, INREDECO), still in Lausanne. Information kindly transmitted by the Archives historiques de Nestlé (AHS), Vevey (Switzerland).

<sup>33</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 26.

companies was centralized. They shared the same office in Kobe, and Champoud, the director of Nestlé Japan, was the de facto director of ARKK, though the fact was officially disclaimed. Second, both enterprises signed a production agreement in 1934 whereby ARKK was to work exclusively for Nestlé, producing condensed milk under a licensing agreement. In 1939, a second production agreement was drawn up allowing ARKK to produce and sell goods other than Nestlé's original brand. ARKK paid royalties to Nestlé for this kind of production as well.<sup>34</sup>

The establishment of ARKK appears to reflect a clear desire to hide Nestlé's involvement in local production in Japan by disguising it as the actions of a Japanese firm. For example, in July 1943, Champoud recalled that "when speaking of Hirota and Saidaiji factories, we should never mention "our factories" but "the factories of our friends, etc." except of course in correspondence with the management."<sup>35</sup> Nevertheless, the meaning and the scope of this tactics are obscure. Indeed, even if the desire for camouflage is real, Japanese competitors were definitively not fools. As early as 1930, when Nestlé was trying to establish itself in Hokkaido, its Japanese rivals were well-informed about the negotiations at an early stage. Again in 1933, when Nestlé initiated negotiations with Fuji Condensed Milk, it was exposed immediately by Japanese competitors. Fuji was immediately expelled from the Japanese Milk Industry Association. The association further condemned Nestlé's desire to market its upcoming product produced on Japanese soil under its global brand, thus making it look like imported goods, instead of enhancing its value as compared with the product of local rivals (Nihon nyugyo shi, 1960, p. 175). Actually, Nestlé Japan explained in 1941 in a

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<sup>34</sup> AHN, 1520 Japan, *Nos affaires au Japon*, 27 December 1941, pp. 1-3.

<sup>35</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 64.

retrospective summary that “under the constraint of legal prescriptions, the shareholders had to announce [the loans they benefited from Nestlé Holding] for buying ARKK shares.”<sup>36</sup> From that time onwards, “ARKK was thus officially known as a foreign firm.”<sup>37</sup>

More than a will to hide its investment in a plant, Nestlé’s strategy appears to be a desire to distinguish between production and marketing in the context of a very unstable environment. As ARKK did not possess any brand, its expropriation or requisition for any reason would not jeopardize the comparative advantage acquired by Nestlé’s brands on the Japanese market from the early 20th century onwards.

### ***The “milk war”***<sup>38</sup>

Japanese condensed milk producers reacted vehemently to the presence of Nestlé on Awaji Island. With Morinaga in the lead, four enterprises founded an association called the Joint Association for National Condensed Milk (*Kokusan rennyu kyodo kumiai*) in August 1933, with the aim of setting up a rival business in Awaji and thus taking over control of the supply of local fresh milk from ARKK, which came with the opening of a butter factory at Hirota, adjacent to ARKK, in September 1933. This strategy was reinforced with the foundation of the Joint Association for the Sale of Condensed Milk (*Kyodo rennyu hanbai kumiai*), which Meiji now joined. In December 1933, it set up the firm Kyodo Kokusan Condensed Milk (Meiji, 1969, p. 94; *Nihon nyugyo shi*, 1960,

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<sup>36</sup> AHN, 1520 Japan, *Note à l’attention de la direction générale*, 14 November 1944, p. 4.

<sup>37</sup> AHN, 1520 Japan, *Note à l’attention de la direction générale*, 14 November 1944, p. 4.

<sup>38</sup> AHN, 1520 Japan, *Note pour la direction générale*, 28 December 1944, p. 1.

pp. 184-185)<sup>39</sup> and started producing dairy goods in Awaji as of May 1935 (Nihon nyugyo shi, 1960, p. 187).

Nestlé reacted first by ordering fresh milk from Tokushima on the neighbouring island of Shikoku. It even planned to relocate its plant there but could not obtain the necessary authorization (Nihon nyugyo shi, 1960, p. 188). The difficulties encountered in sourcing fresh milk explain why Nestlé did not develop its Hirota plant within its expansion strategy but was rather looking for another site. After two years of research all over the country, in 1936 it initiated negotiations with its rival, Morinaga, which was then thinking of getting rid of a small plant at Saidaiji in Okayama prefecture, due to the limited size of the milk district. This plant was bought up by Nestlé in 1936 for 50,000 yen.<sup>40</sup> The objective of this acquisition was to buy “Morinaga’s skeleton factory in order to acquire the milk district and to obtain the right to manufacture, whilst a bigger site was purchased to erect an entirely new factory after Morinaga’s plant would have been torn down.”<sup>41</sup>

After Nestlé arrival in Saidaiji, the company Kyodo Kokusan Condensed Milk no longer had any reason for being. It was dissolved and the plant was bought up by Meiji in July 1937 (Meiji, 1969, p. 96). However, the supply of milk on Awaji Island continued to be the subject of conflict between Nestlé and Meiji for several years. Both wanted to dominate this market, and dairy farmers could easily raise their prices due to this rivalry. Moreover, the price increase was strengthened by the waging of the war against China in 1937, as the dairy farmers who had previously imported forage mainly

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<sup>39</sup> The name of the firm literally means “national collective production of condensed milk”.

<sup>40</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 40.

<sup>41</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 38.

from Manchuria ran into sourcing problems.<sup>42</sup> Milk prices continued to increase and both Nestlé and Meiji were losing money. An agreement on sharing fresh milk on Awaji Island was finally signed in 1940 by both parties, allocating 64 per cent of production to ARKK and 36 per cent to Meiji. It was renewed in 1944, granting equal shares to both partners.<sup>43</sup>

### **Staying in Japan despite the war**

The war not only put an end to the trade relationship between Japan and the West, but it also led to the adoption of specific measures unfavorable for MNEs from enemy nations (transfer of assets to Japanese companies, expropriation of patents, etc.) (Mason, 1992, pp. 103-104). Under these circumstances, most of the MNEs gave up their business and left Japan. The rare exceptions like Nestlé which decided to stay on had to face a new interventionist economic policy (*tosei keizai*) based on the Law on the General Mobilization of the State (*kokka sodoin*) adopted in March 1938 (Hara, 2003).

In the case of the dairy industry, the main characteristic of this policy was the control of distribution by the State. In October 1940, the Ministry of Agriculture and Forests adopted a decree on the control of milk and dairy products' distribution (*gyunyu oyobi nyuseihin haikyu dosei kisoku*), which remained in force until March 1950. Concerning condensed and powdered milk in particular, it defined the packaging of goods (weight and label), the list of authorized suppliers, among which was Nestlé, as well as the mode of distribution (Meiji, 1969, pp. 158-159). Distribution was centralized with the creation of the Japan Milk Association (*Dainippon seirakugyo kumiai*), which

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<sup>42</sup> AHN, 1520 Japan, *Note pour la direction générale*, 28 December 1944, p. 1.

<sup>43</sup> AHN, 1520 Japan, *Location de la fabrique d'Hirota*, 16 April 1945, p. 4.



became a unique wholesaler to which makers could sell their products at fixed prices (Suwa, 1975, pp. 51-52). As for the sale of milk caramels, it was also subjected to similar control with the establishment of a Confectioners Association.<sup>44</sup> In 1941, the Japan Milk Association decided that condensed milk could be only marketed under anonymous brands.<sup>45</sup> Nestlé Japan, which moreover experienced some difficulties in accessing raw material supply,<sup>46</sup> wondered at that point whether or not it was worth staying on in Japan under such severe conditions.

On 1 November 1940, Nestlé's US headquarters, to which Nestlé Japan reported at the time, wrote to the Swiss holding to let it know about its decision to close the Japanese subsidiary at the end of the year, "for, since a while already, the position was becoming more and more difficult."<sup>47</sup> The new distribution policy led indeed to very severe financial difficulties: on the one hand, the maximum prices fixed by the Japan Milk Association were lower than production costs for some articles (*Lactogen*, *Eledon*), while on the other hand, retailers refused to sell Nestlé products due to expected low profit margins.

The strategy of Nestlé's US headquarters was not to end its activities on the Japanese market completely but rather to reorganize the presence of the firm to avoid further financial losses. As Nestlé Japan was in fact merely an intermediary between ARKK and the Japan Milk Association, it "has thus no more any *raison d'être* in Japan."<sup>48</sup> ARKK was to deliver its products directly to the Japan Milk Association, but with new brands: *Milkyway* for milks, *Arkogen* instead of *Lactogen* and *Arkedon* for

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<sup>44</sup> AHN, 1520 Japan, *Note pour la direction générale*, 28 December 1944, p. 12.

<sup>45</sup> AHN, 1520 Japan, Letter from Nestlé to the Bureau fédéral de la propriété intellectuelle, 27 June 1941.

<sup>46</sup> AHN, 1520 Japan, *Note pour la direction générale*, 28 December 1944.

<sup>47</sup> AHN, 1520 Japan, *Notre situation au Japon*, 1st November 1940, p. 1.

<sup>48</sup> AHN, 1520 Japan, *Notre situation au Japon*, 1st November 1940, p. 2.

*Eledon*.<sup>49</sup> The ultimate purpose was to protect Nestlé's traditional brands. That was the reason why Nestlé US headquarters envisaged maintaining Nestlé Japan just to keep its brands registered in Japan. It concluded its report with the following words: "The best we could is to sweat it out; hoping one day things will come back into a more normal order, for Japan will not vanish out of the map and as long as we have our factories there and they are our property, we can keep a glimmer of hope."<sup>50</sup> The management of Nestlé was then swaying between a short-term strategy of striking a financial balance between subsidiaries and a long-term vision of maintaining acquired positions. In the final analysis, the Swiss headquarters chose to follow the second path, namely, holding on to Nestlé Japan.

Some hesitations were still perceptible at the beginning of the following year. In February 1941, Nestlé Japan wrote to Nestlé US headquarters to report on its proposition to procure all its assets in Japan. Even though the decision to stay had been made, Nestlé Japan asked for confirmation from headquarters because the acquisition required gold currency instead of the yen. "The future is so uncertain today that no intelligent forecast can be made of what the fate of foreign investments and even private Japanese investments will become in future."<sup>51</sup> Champoud, the director of Nestlé Japan, added that it was probably the last opportunity to sell Nestlé for its real value, but he also underscored "the chance to remain established in Japan and possibly expand again when circumstances will improve."<sup>52</sup> Finally, he finished his letter by writing that "it looks even more today than before that Japan will become one center, if not the most important one, of the dairy industry and trade in Far East and taking a long view we

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<sup>49</sup> AHN, 1520 Japan, *Notre situation au Japon*, 1st November 1940, p. 4.

<sup>50</sup> AHN, 1520 Japan, *Notre situation au Japon*, 1st November 1940, p. 6.

<sup>51</sup> AHN, 1520 Japan, *Our situation in Japan*, 10 February 1941, p. 2.

<sup>52</sup> AHN, 1520 Japan, *Our situation in Japan*, 10 February 1941, p. 2.

have therefore hardly any reason to change our policy to retain our place in the sun.”<sup>53</sup>

Nestlé US headquarters was against the cessation of activities and answered this letter by saying, “having secured the position we have, after great struggle and many difficulties, we should remain established but he [Muller, president of Nestlé US headquarters] added that he would consider any offer made on the approximate basis of US\$ 550,000 for all our assets.”<sup>54</sup>

Finally, some final plans to abandon the Japanese market were mooted in 1943, in the context of negotiations related to a merger with competitors. The first involved Meiji, which adopted in the early 1940s a strategy of growth through mergers of rival companies and the acquisition of plants (Meiji, 1969, pp. 170-171). In this context, Meiji approached Nestlé in January 1943, offering to take over its Saidaiji plant. The Swiss MNE refused, arguing “we want to retain the advantage we have gained by being established for several years.”<sup>55</sup> The second acquisition proposal was made in 1943 by Kanematsu & Co., a trading firm specialized in imports of raw wool from Australia. Kanematsu’s core business was in difficulty at the time due to the war, and the company was seeking new business opportunities. Fearing the arrival of a newcomer on the milk market after the war, Nestlé rejected these offers.<sup>56</sup>

Despite its decision to maintain activities in Japan, Nestlé had to deal with the insistent demands of the Japanese authorities, which tried from 1941 onwards to take over both ARKK plants, a desire that became more pressing in 1943.<sup>57</sup> Here, there are military reasons why the authorities intervened that had little to do with Nestlé’s foreign

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<sup>53</sup> AHN, 1520 Japan, *Our situation in Japan*, 10 February 1941, pp. 2-3.

<sup>54</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 56.

<sup>55</sup> AHN, 1520 Japan, *Notes on Japan*, 15 July 1943, p. 56.

<sup>56</sup> AHN, 1520 Japan, *Location de la fabrique d’Hirota*, 16 April 1945, p. 1.

<sup>57</sup> AHN, 1520 Japan, Letter from Nestlé to the Federal Political Department, 10 July 1945.

nature; the army had been taking over most civilian goods producers due to war production. In 1944, under the threat of requisitioning, ARKK had to rent out its Saidaiji plant to the company Kokobu Shoten pursuant to an order from the Osaka Military Intendancy.<sup>58</sup> In May 1945, the Hirota plant was lent to Kanematsu & Co. under pressure from the Ministry of Agriculture and Forests.<sup>59</sup>

The requisitioning of ARKK's plants put an end to Nestlé's production in Japan in 1944. Although Champoud, director of Nestlé Japan since 1930 and kingpin of the relocation of production to Japan, returned to Switzerland in July 1944, the Japanese subsidiary was not closed down. Two Swiss citizens stayed on in Japan: Tillmann, an executive of Nestlé Japan, took over responsibility for this branch, and Ruch, the engineer of SEASI (formerly A.P.I.). With their only presence, they managed to secure Nestlé's presence in Japan with a single idea in mind: the post-war era.

### **The revival of production activities after 1945**

Whereas investment by foreign MNEs in Japan was strictly limited and severely controlled until the 1960s, Nestlé quickly resumed its activities in the immediate aftermath of the war (Mason, 1992, pp. 150-198). A new director was sent to Japan as soon as the fighting ended, Edmond Mandelert, a former employee of the Shanghai branch. He was one of the first foreign businessmen to arrive in Japan after the end of the war and stayed on as director of Nestlé Japan until 1965 (Nestlé Japan Group, 2003, pp.14-17). In the dairy industry, the interventionist economic policy (*tosei keizai*) remained in force until 1950. Until the beginning of that decade, Mandelert's main task

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<sup>58</sup> AHN, 1520 Japan, Letter from Nestlé to the Federal Political Department, 10 June 1945.

<sup>59</sup> AHN, 1520 Japan, Letter from Nestlé to the Federal Political Department, 10 June 1945.

consisted of negotiating the revival of activities with the authorities and reorganizing the supply of fresh milk (by providing credits to farmers, rebuilding dairies, etc.).

Nestlé regained control of both its factories on 5 January 1946.<sup>60</sup> In July-August 1949, it officially bought back ARKK from its Japanese shareholders and obtained authorization to restart commercial activities (import and distribution).<sup>61</sup> Both factories had escaped destruction by air raids, unlike the Kobe office, making a quick revival possible. The production of sweetened (*Eagle*) and unsweetened (*Milkmaid*) condensed milk products resumed in 1950, followed shortly by other Nestlé goods. However, the market was very unstable during the first half of the 1950s, due to weak demand. Nestlé therefore restructured its production business in 1954 by closing its Saidaiji factory and by consolidating in Hirota (Nestlé Japan Group, 2003, p.14). At the same time, imports recovered in 1953. As the authorities strictly controlled the distribution of foreign currencies and foreign trade, between 1954 and 1957, Nestlé exported to Brazil tinplate sheet and packing materials for coffee beans purchased in Japan, in order to have at hand the currencies necessary to import instant coffee (Nescafe) from Brazil.<sup>62</sup> Rather than locally produced condensed milk, the import of Nescafe –authorized in 1953 and liberalized in 1961 – and its production in Japan was the main thrust which shored up Nestlé’s position in the post-war food business in Japan.<sup>63</sup> However, the legacy of the pre-war milk business in Japan, namely, the company’s established brand

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<sup>60</sup> AHN, 1520 Japan, Fujimoto, N. *The Course of Nestlé k.k. in Japan. Spanning the Meiji, Taisho and Showa eras*, undated (around 1983), p.13

<sup>61</sup> GHQ/SCAP, CPC 11201, Memorandum for Foreign Investment Commission, 30 August 1949 and LS17475, Letter from Nestlé Japan to the Foreign Investment Board, 19 August 1949.

<sup>62</sup> AHN, 1520 JAPAN, Fujimoto, N. *The Course of Nestlé k.k. in Japan. Spanning the Meiji, Taisho and Showa eras*, undated (around 1983), p. 17.

<sup>63</sup> In 1968, Nestlé was the biggest foreign company in the food industry in Japan, in terms of invested capital, with a total amount of 2.7 trillion yen, before Coca-Cola (2.5 trillion yen). Donze, 2010, p. 731.

and its products, together with the retained organizational and human resources, were the most basic condition for Nestlé's new success in the post-war Japanese market.

## **Conclusion**

Nestlé's implantation on the Japanese market was the result of a slow and difficult process that lasted nearly forty years. In the course of the import substitution process in Japan, the firm was challenged by local milk producers on the one hand and coped with an economic policy that was unfavourable to foreign direct investments on the other hand, delaying Nestlé's local production in Japan.

Indeed, after having opened a subsidiary in Kobe in 1913, it took Nestlé around twenty years of negotiation and confrontation with the local condensed milk producers before it finally acquired its own plant through an investment in Awaji Condensed Milk (ARKK) in 1934. At the time, Nestlé was the only foreign MNE in the food industry producing locally in Japan. Yet the creation of ARKK does not appear as the end but rather as the beginning of a new phase of open confrontation with local firms and the authorities. Indeed, for more than ten years, the Swiss MNE faced problems with regard to fresh milk supplies, control of distribution, relinquishment of its brands and, finally, the forced rental of its plants, not to mention declining profits due to the war. Despite these difficulties, Nestlé never gave up the position it had acquired. As MNEs were leaving Japan in droves during the 1930s, Nestlé hung on and turned down various takeover proposals. The Swiss management of the holding consistently kept the post-war period in mind. The position that Nestlé could reach by the mid-1930s was to enable it to dominate the dairy industry after the end of the war. That was also why a new director was sent to Japan as soon as the war ended. The tenacity of the Swiss

MNE paid off in the end. Nestlé was not only one of the very few foreign MNEs to be active in Japan in the second half of the 1950s, but also soon became one of a handful of non-Japanese influential food companies on the local market, which is characterized by a non-Western food culture.

Beyond the case study presented here, one should wonder what the example of Nestlé in Japan tells us about the nature of Swiss MNEs. Two main features can be underscored: the tenacity and long-term strategy of Nestlé, and the “camouflaging” of its activities.

First, a long-term strategic perspective clearly seems to be a characteristic of Nestlé’s management throughout the 20th century. More than short-term profit, the sometimes slow but constant acquisition of dominant positions in various markets appears as a key issue for Swiss managers. Tetsuya Kuwahara has for example showed that, unlike General Foods of the United States, Nestlé adopted a policy of maintaining its foreign – mainly Swiss – managers in Japan for long periods after World War II, enabling them to gain wide knowledge of the local market and its environment (Kuwahara, 2009). This long-term strategy was also adopted elsewhere in the world. When Saigon fell in April 1975, Nestlé’s representative in Vietnam was one of the last Swiss citizens to live in the country, having received the order from the holding “to think by no means of an evacuation before the staff of the Swiss embassy”.<sup>64</sup> In the ensuing weeks, Nestlé founded a new joint venture with the Communist government for the production of powdered milk (Gaffino, 2006, p. 205). Moreover, this long-term strategy was not unique to Nestlé. Among the foreign MNEs established in Japan during

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<sup>64</sup> Letter from the Swiss Embassy at Saigon to the Federal Political Department, 12 April 1975. Quoted by Gaffino, 2006, p. 196.

the 20th century, noteworthy continuity can be observed in the case of Swiss MNEs (Brown Boveri & Co., Ciba Ltd., Sandoz, Sulzer Brothers Ltd.), whereas MNEs from other countries seem to have been more volatile (Kuwahara, 2007).

Second, the “invisible” nature of Nestlé’s direct investment in ARKK was not limited to this case. Other Swiss firms active in Japan during the first half of the 20th century also adopted this type of strategy, like the trading company Liebermann Waelchi & Co., which was legally considered a Japanese firm at the end of the war.<sup>65</sup> This was also the case with the watchmaker Rodolphe Schmid, who invested in 1930 in a company in Japan, Citizen Watch Co., through some of his Japanese employees (Donze, 2010). Therefore, it could be tempting to see this trait as confirmation of the thesis of the Swiss historian Sébastien Guex, who emphasized the “camouflage practice cultivated by Swiss ruling elites” (Guex, 1999, p. 11). In the specific case of Japan, however, this does not appear to be a feature unique to Switzerland; in the milk industry, the American company Carnation adopted a similar strategy at the beginning of the 1930s (Nihon nyugyo shi, 1960, pp. 185-186). Due to the very discrete nature of such a practice, it is difficult to approach it in a systemic way, but it seems to have been used by diverse MNEs for various reasons, and can also help explain the so-called low level of foreign direct investments towards Japan (Abegglen, 2007).

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<sup>65</sup> GHQ/SCAP, CPC 11201, Travel memorandum, 8-9 May 1947.



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